

June 6, 2002

Pauline Zeestraten, Executive Director
Chinatown-International District Business Improvement Area
409 Maynard Ave S Rm P-1
Seattle WA 98104

Dear Ms. Zeestraten:

In the fall of 2001, you requested that our office audit the Chinatown-International District (CID) Business and Parking Improvement Area's (BIA) accounts. You made this request because several CID-BIA ratepayers were dissatisfied with the City's BIA assessment billing, receipting and account adjustment correction processes. The City Auditor decided that we should respond to your request because the City of Seattle is responsible for collecting and accounting for BIA assessments. This letter summarizes the results of the work we performed.

You requested that our office determine:

- whether ratepayers were being assessed at the correct rate,
- whether ratepayers were paying their assessments in a timely manner,
- whether the City could improve the accounting and billing services it provides to the CID-BIA,
- whether the CID-BIA's cash management methods are effective, and
- what could be done to increase the percentage of CID-BIA members that paid their assessments.

We began our audit by interviewing you and officials from the City's Department of Finance/Treasury Office. We also interviewed officials from two CID-BIA ratepayers to obtain a better understanding of their concerns. We examined and documented the CID-BIA's budget and billing database. We are currently examining and documenting the City's cash receipts, billing, and accounts receivable processes. We tested and analyzed assessments levied on CID-BIA members and the corresponding payment histories.

We divided this letter into three sections:

1. Assessment Billing Process
2. Cash Management
3. Improving Collection Rate of Assessments and Donations

Overall we found the CID-BIA's assessments collection rate is very good. However, we agree with the concerns expressed by yourself and your ratepayers regarding problems with assessment bills and correction of billing errors. In this letter we are making recommendations to help bridge the gap between the expectations you have of the City's BIA assessment process and the services the City is currently able to provide. We have decided to perform additional audit work at the City and with other BIAs on issues that were brought to our attention during this audit, and will report the results of that work in a separate report.

ASSESSMENT BILLING PROCESS

Lack of policies and procedures makes bill process management difficult.

The CID-BIA does not have written policies or procedures detailing steps the City and the CID-BIA should perform in the assessment billing process, or the timing of those steps. For example, it would be helpful if the CID-BIA Executive Director was required to review assessment bills created by the City before they are printed and mailed to ratepayers. The Executive Director could also review bills to ensure that non-profit organizations are not sent to collection when they do not make a donation. The bill review should be easily arranged because the City prepares assessment bills on a standard cycle. There is also no documented process for escalating ratepayers' assessment bill problems to higher levels within the City.

Recommendation: The CID BIA Executive Director should develop written policies and procedures concerning her organization's interactions with the City in the assessment billing, accounting and collection processes. She should work with the City's Treasury Office to develop the policies and procedures document. Then she should obtain her board's approval for the document. This would help clarify the roles of the CID-BIA and the City and help to keep communications clear between the two entities. The CID-BIA Executive Director should obtain the schedule used by the City to send assessments, collection letters and other correspondence to ratepayers. The Executive Director should meet with City officials and agree on the dates for various billing transactions processes (e.g., deadline for changes to the ratepayer assessment database, date of quarterly bill processing and mailing, date delinquent account report is run, etc.) She should agree on a date and process with the City for her to review delinquent account list before it is sent to the City's collection agent. This will help prevent non-profit organizations from being sent to collection because any payments they make to the CID-BIA are voluntary.

Assessment bills prepared by the City are difficult for CID-BIA ratepayers to understand.

CID-BIA ratepayers told us that they have difficulty understanding how their assessments are calculated. For example, if the assessment is for parking, there is no breakdown on the assessment bill disclosing the rate or the number of parking stalls. Ratepayers also stated that they are confused about which numbers to place on their payments to ensure proper credit to their accounts. We met with City officials who stated that the obligation number

and the customer number should be included with all payments. Our office will continue to work with the City to address the concerns expressed by the CID-BIA ratepayers about their assessment bills.

Recommendation: To help ensure that ratepayers payments are credited properly to their accounts, the CID-BIA Executive Director should tell CID-BIA ratepayers to include the obligation number and the customer number on their payments.

City billing errors are not corrected in a timely manner

Some errors occur in CID-BIA bills when they are not reviewed for accuracy before being sent out. We were shown a first quarter 2001 assessment for \$37,500 that the City sent to the non-profit organization the Amitabha Buddhist Society of Seattle. The quarterly amount should have been \$25 because the annual billing rate for a non-profit organization at that time was \$100. We believe if someone had checked the bill before it was sent they would have easily identified this error because the largest single assessment for any CID-BIA ratepayer was \$7,500 a quarter.

We also noted that the City billed essentially the same organization twice for donations to the CID-BIA. Football Northwest and First and Goal were both billed for the first quarter of 2002, even though the CID-BIA instructed the City to drop Football Northwest from the billing process because it was replaced by First and Goal.

We will discuss the billing errors issue with City officials. However, if the City is not able to double check the assessments before they are mailed, the CID-BIA Executive Director can help reduce billing problems by reviewing the list of assessment bills before the City prints and mails them, and notifying City staff of any obvious errors.

Recommendation: The CID-BIA's Executive Director should review the CID-BIA assessment bills before they are mailed to ratepayers. As recommended above, this review step should be documented and agreed upon with the City.

Data needed for calculating CID-BIA assessment is not collected on City business license applications

After reviewing the City business license application form, we agree with you that there is not enough information collected on the form to enable the City to correctly calculate the assessments for all CID-BIA ratepayers. We have no recommendation at this time and we will examine this issue during our audit of the City's work with all BIAs.

Ratepayers don't receive notice of future years' assessment

Ratepayers do not receive information from the City telling them what their assessment will be for the next year or how it will be calculated. We have no recommendation at this time on this issue and we will be discussing it with City officials during our BIA audit.

CID-BIA should explore annual assessments

The City sends assessments to BIA ratepayers on a quarterly basis. Our research indicated that assessments could be sent once a year. Processing annual assessments saves processing costs enhances the collection efforts and improves cash management for the City and the CID-BIA. It requires less processing time and postage to prepare 400 annual bills than 1,600 quarterly bills. Additionally, the larger dollar amounts associated with annual payments will provide greater financial incentives to the City's collection agent. Also, it improves the CID-BIA's cash flow to have as much funding as possible available at the beginning of the year.

Recommendation: The CID-BIA should determine whether its members would support receiving assessments less frequently than on a quarterly basis.

CASH MANAGEMENT

Cash reserves management can be improved at the CID-BIA

The CID-BIA submits monthly reimbursement requests to the City. The City reimburses the CID-BIA from a reserve fund of assessment revenues that are maintained by the City. Currently the CID-BIA's reserve fund is about \$55,000. This may not be the optimal amount of reserve. The CID-BIA Executive Director does not have a cash management plan to help her understand the best way to manage the CID-BIA's cash flow. Among the items to be covered in a sound cash management plan would be the amount of cash that should be kept on hand by the CID-BIA to meet its current expenses and the amount that should be kept in the City's reserve fund.

Recommendation: The CID-BIA Executive Director should work with her board's treasurer to create a cash management plan. The plan should specify the amount of cash that the CID-BIA should retain to meet its immediate cash needs.

CID-BIA budget should be revised

We analyzed the CID-BIA's board-approved 2002 budget. As shown in Table 1 below, while the assessments collected in 2002 are estimated to be \$134,000, the 2002 approved budget is for \$180,000.

Table 1

REVENUE	2002 Current Budget	2002 Budget (Proposed)	Difference
Assessments	\$180,000	\$134,000	(\$46,000)
Less Allowance for Delinquent Assessments	(\$12,000)	(\$12,000)	\$0
Assessments Net	\$168,000	\$122,000	(\$46,000)
Donations	\$0	\$10,000	\$10,000
Grants	\$26,500	\$26,500	\$0
TOTAL REVENUE	\$194,500	\$158,500	(\$36,000)

Recommendation: The CID-BIA Board should amend its budget to reflect a lower amount of 2002 assessment revenue.

IMPROVING COLLECTION RATES OF ASSESSMENTS AND DONATIONS

The CID-BIA should analyze regularly the assessments paid by ratepayers

In the past, the CID-BIA Executive Director has not analyzed the amounts contributed by CID-BIA ratepayers to determine where she should focus her collection efforts. Using City billing data, we created Table 2 below to show the 25 largest first quarter 2002 assessments for CID-BIA ratepayers.

Table 2

	Ratepayer Name	Quarterly Assessment
1.	UWAJIMAYA VILLAGE	\$2,679.27
2.	FIRST & GOAL INC	\$2,500.00
3.	SCIDPDA	\$1,517.53
4.	VULCAN INC	\$964.03
5.	CITY OF SEATTLE PARKS	\$855.50
6.	AMAZON.COM HOLDINGS INC	\$799.40
7.	WATCHGUARD TECHNOLOGIES	\$757.35
8.	MERCHANTS PARKING ASSOC #45	\$453.09
9.	TSUE CHONG CO INC	\$440.00
10.	ACCENTURE LLP	\$417.23
11.	OCEAN CITY RESTAURANT	\$396.00
12.	HOUSE OF HONG	\$387.20
13.	FIFTH & JACKSON PROPERTY	\$337.50
14.	EILEEN OF CHINA BUILDING	\$328.69
15.	DEARBORN BUILDING	\$328.69
16.	PUBLIX HOTEL	\$325.00
17.	KEY BANK BUILDING	\$313.20
18.	IPM UNION STATION GARAGE	\$309.60
19.	DOWNTOWNER BLDG & PK LOT	\$296.06
20..	THE COPY COMPANY	\$264.00
21.	EILEEN OF CHINA	\$261.25
22.	DOWNTOWNER APARTMENTS	\$259.80
23.	REPROGRAPHICS BLDG PROPERTY	\$252.00
24.	PANAMA HOTEL	\$249.25
25.	IMPERIAL RICHFIELD BUILDING #3	\$247.50
	Total	\$15,939.14

The total assessment bill for first quarter 2002 was about \$41,000. The top 25 ratepayers comprise 39% of the total quarterly assessment. These accounts should be the main focus of the Executive Director. By focusing on these accounts, the Executive Director can ensure that these ratepayers are encouraged to pay their assessments on time and are receiving all the information they request concerning their assessments and payments.

Donations need to be monitored and encouraged by the CID-BIA

In the past certain organizations have donated funds to the CID-BIA. For example, Football Northwest, now First and Goal, entered into a written agreement to provide \$30,000

annually to the CID-BIA. Lately, they have reduced the amount of support they are providing to the CID-BIA. The CID-BIA Executive Director sent letters to First and Goal asking why the donation has been reduced. She recently received a written notice from First and Goal stating that their donation will be reduced to \$10,000 in 2002.

Recommendation: The CID-BIA's Board members should continue their work to help secure donations to the CID-BIA.

Encouraging assessment payments and rewarding early payments

Currently, there is no method for ratepayers to publicly demonstrate their timely financial support of the CID-BIA.

Recommendation: The CID-BIA should consider developing a window sticker that can be displayed by ratepayers to demonstrate that they have paid their assessment on time.

If you have any questions or comments about our audit, please either contact me (phone 233-1094) or the Deputy City Auditor, David Jones (phone 233-1095).

Thank you for the excellent cooperation you provided us during this audit.

Sincerely,

Scottie Veinot-Nix
Assistant City Auditor